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C O N F I D E N T I A L SECTION 01 OF 02 MAPUTO 000866

SIPDIS
FOR AF/S HTREGER
E.O. 12958: DECL: 07/11/2010
TAGS: EPET ENRG ECON PGOV MZ
SUBJECT: MOZAMBIQUE: PETROL PRICES HIKES FUEL GROWING DISCONTENT

REF: MAPUTO 860
Classified By: CDA James Dudley for reasons 1.4 (b) and (d)

¶1. (SBU) Summary. The Mozambican government has raised fuel prices over 60 percent since April in response to the devaluation of the metical and increasing world petroleum prices. Prior to the price increases, the GRM had held fuel prices near or below market levels, resulting in the depletion of Mozambique,s oil stocks. The price hikes have led to public complaints about the Guebuza government and sporadic strikes by mini-bus drivers, which compelled the GRM to announce a 50 percent increase in mini-bus fares on June ¶30. The fuel price increase is expected to ignite inflationary pressures and dampen economic growth this year, but the ultimate economic and political effects of the price increase are still uncertain. End summary.

Three Price Hikes

¶2. (U) On June 1 and June 21, the Ministry of Energy, which establishes maximum retail fuel prices in Mozambique, announced two separate 19 to 20 percent increases in consumer fuel prices, comprising a total price increase of 42 to 44 percent for the month, depending on the type of fuel. The Ministry had previously raised consumer fuel prices by 14 to 18 percent on April 27, translating into a 60 to 70 percent price increase over the two-month period. The price increases were precipitated by the recent rapid increase in world petroleum prices and the devaluation of the metical, which fell from 19,000 mt/USD on January 1 to 24,200 mt/USD on June 1, with most of the devaluation occurring in April and May.

¶3. (U) The April fuel price alterations corresponded almost directly with changes in currency values and world fuel prices. IMF and industry sources have told Emboff that the GRM historically shifts fuel prices in direct proportion to currency adjustments, generally keeping prices in line with the world price plus applicable taxes. This policy often squeezes profit margins of companies that import and distribute fuel, and occasionally forces them to operate at a loss. Between June 30 and December 31, 2004, the metical appreciated from 24,000 mt/USD to roughly 19,000 mt/USD. The GRM responded to the appreciation by dropping consumer fuel prices approximately 23 percent in a series of price cuts between January and February 2005.

¶4. (C) The GRM,s June actions, however, may signal a shift by the Mozambican government toward a policy that is more amenable to the oil companies than to the consumer. In meetings held in late May and early June, representatives from the country's major fuel importers (including Petromoc, British Petroleum, Total) met with Minister of Energy Salvador Namburete and later with Prime Minister Luisa Diogo in order to secure price increases, explaining that oil reserves were depleted to the point that they could not guarantee oil supplies for more than a few days at a time. The Ministry of Energy responded by announcing the two June price increases. A local television channel (STV) announced yet another major price hike in the 20 percent range scheduled for June 27, but it did not take place. Emboff contacts within the Ministry of Energy confirmed that this price increase was planned, but was canceled by the Prime Minister due to concerns about the likely public response.

¶5. In a July 3 interview with the newspaper Domingo, Prime Minister Diogo defended the GRM,s actions, stating that the increase in world fuel prices combined with the devaluation of the metical averaged 51 percent, and that the GRM had actually increased prices by less than what the market demanded. (Comment: It is unclear how the 51 percent figure was derived. Unofficial calculations show world oil prices have risen approximately 50 percent since July 1, 2004. Consumer fuel prices in Mozambique have risen approximately 70 percent over that same period while the value of the metical relative to the dollar is almost exactly equal to what is was one year ago. End Comment.) Diogo also added that the GRM was planning to establish a "cushion fund8 to be activated in case of a future drop in world prices. In this scenario, companies could maintain retail price levels by paying windfall profits into a fund that the government would use to subsidize companies in order to maintain stable fuel prices in the face of future world price increases. (Comment: This measure would make it impossible for consumers to benefit from world price decreases, as they did in early

¶2005. End Comment.)

Public Response

¶6. (U) The June fuel prices have caused disenchantment with the Guebuza government among regular Mozambicans and a third major fuel price increase within one month might well have lit a fuse of resentment within the populace. Rising fuel prices are a major worry to Mozambicans -- the price increases have been front-page news for much of the past month -- but public outcry has thus far been relatively muted. Mini-bus (chapa) owners have been the most vocal in their protests. On June 21, mini-bus operators in the provincial capital of Xai-Xai protested the second June price increase by going on strike, and subsequently raising their prices by 25 percent, independent of the Ministry of Transportation, the government body authorized to set mini-bus prices. Many mini-bus operators in other cities followed suit. On June 30, the Ministry of Transportation acquiesced to the mini-bus owners, association by agreeing to raise fares by 50 percent nationwide (to 7,500 meticais per fare), effective July 1. The fare increase threatens the well being of many Mozambicans who already spend a large portion of their monthly income on mini-bus fares to work and school. The transport association has responded with a proposal to reduce fares for students, but this has not been finalized.

¶7. (U) Labor unions are also unhappy with the government because, in late May, before the first June price increase, they negotiated a 14 percent increase in the monthly minimum wage, raising it to 1,277,138 meticais (roughly USD 53.50). The wage increase, which is negotiated and raised on an annual basis, slightly outpaced Mozambique,s inflation rate of 12.8 percent in 2004. The increase was formally announced by the GRM on June 5, before the end of the fuel price hikes, and the GRM has told unions that it will not renegotiate the minimum wage increase. There is also speculation that the gasoline and mini-bus price increases contributed to a strike by workers of the guard company, Wackenhut, that provides guards for the embassy and other USG facilities in Maputo. (see reftel)

Looking Forward

¶8. (SBU) Comment: Until now, public response to the fuel price increase has been limited to protests in isolated sectors and much hand wringing in the media. Mozambique,s Independence Day celebrations on June 25 passed without any significant demonstrations against GRM policy. This level of tranquility may well change. The full inflationary effect of the fuel price increase is just starting to manifest itself in public transportation costs, and the expected increases in food prices have not yet taken effect. The GRM is trying to create expectations of low inflation; Diogo said on July 3 that she expects inflation for 2005 to be about 7 or 8 percent. This expectation seems unrealistic, given the combination of high prices and near drought conditions in much of the country, particularly in the south and central regions. If inflation reaches over 20 percent -- a level that Mozambique has not seen since the mid-1990s -- public reaction against the Guebuza government and the ruling Frelimo party could be harsh. The GRM is aware of the problem. On July 8-10, President Guebuza presided over a weekend-long extended Cabinet meeting; it is said that the meeting was called principally to address the impact of fuel price increases and the perceived decline in popularity of the Guebuza government. End Comment.

Dudley